

# **Committee on Resources, Full Committee**

- - Rep. James V. Hansen, Chairman

U.S. House of Representatives, Washington, D.C. 20515-6201 - - (202) 225-2761

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## **Witness Statement**

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**Remarks and Testimony  
of  
Franklin M. Bishop  
President and Chief Executive Officer  
Intermountain Federal Land Bank Association, FLCA  
Intermountain Production Credit Association  
Committee on Resources Field Hearing on  
Water Management and Endangered Species Issues  
In the Klamath Basin  
June 16, 2001  
Klamath Falls, Oregon**

Good Morning.

I am Franklin M. Bishop, President and CEO of Intermountain Federal Land Bank Association, FLCA and Intermountain Production Credit Association. I have served the Associations as joint President for over 13 years. These two Farm Credit institutions are part of the nationwide Farm Credit System which was established by Congress in 1916 to provide a dependable source of long-term credit to farmers and ranchers.

Under the Farm Credit Act of 1971, as amended, the Farm Credit System provides \$85 billion dollars of loans to farmers and ranchers, agricultural cooperatives, farm-related businesses, marketing and processing facilities, and part-time farmers, as well as young, beginning, small, and minority farmers and ranchers. For 85 years the Farm Credit System has been mandated by Congress and the Farm Credit System regulator, the Farm Credit Administration, to serve the short-, intermediate-, and long-term needs of American farmers and their cooperatives. The Farm Credit System accesses its funding through a fiscal agent in New York by selling bonds on the New York money markets through a series of brokerages. It enjoys the highest levels of confidence by private, institutional, and the investing public.

The Farm Credit System is privately owned by its borrowers who are required to own stock in the Farm Credit Institutions from which they borrow to provide capitalization and participate in governance at the local level. The Farm Credit System is a government sponsored enterprise, serving a critically unique public policy role by providing financing to America's farmers and ranchers at competitive interest rates during good and bad times alike.

The Intermountain Farm Credit Associations provide nearly 800 loans for \$180 million to 550 farmers and ranchers in the seven northeastern California counties and the state of Nevada. The Intermountain Federal Land Credit Association provides 49 loans to 35 borrowers for \$7.2 million in the Tulalake Basin south of the California/Oregon border. We make and service these loans from an office in Tulalake, California, and have local representation on our Board of Directors by Jim Boyd, a potato and grain farmer from Tulalake

who has served on the Intermountain FLCA Board for 14 years.

I have worked in the Farm Credit System for over 26 years in various capacities as a credit analyst, loan officer, field representative, branch manager, regional supervisor, appraiser, vice president of review and audit, senior vice president of credit, and president-CEO and co-CEO of Intermountain FLCA and PCA headquartered in Reno, Nevada, and Ag Credit of California FLCA and PCA, located in Stockton, California.

I am well acquainted with the agricultural and economic conditions impacting the Klamath and Tulelake Basins. I have never seen a situation in which the forces of Mother Nature have combined with the Federal Government, in this case, the Bureau of Reclamation, the Fish and Wildlife Service, the National Marine Fisheries Service, and the Endangered Species Act to create the "Perfect Storm".

Perhaps no one could see the economic storm clouds and ensuing devastation that has been set in motion by the recent drought conditions that limited water supplies to levels that have been artificially set by government agencies at elevations to ensure the survival of two species of fish at the peril of two or three generations of American family farmers.

The loss of approximately 210,000 acres of irrigated field and row crop farm ground caused by the decision to "shut-off" water from the Bureau of Reclamation to the Tulelake Irrigation District will result in an economic calamity and financial ruin to farmers, ranchers, farm-related businesses, community services, merchants, and many area businesses that rely on the income generated from this highly productive farming community to sustain their businesses.

There will be plenty of testimony as to the economic impacts at the local, county and state levels here today, so I will not direct my comments to that particular subject. I am here today to testify on behalf of the Farm Credit System and the banking community as to the devastating financial impact that lack of water will force upon approximately 1,500 farming and ranching families.

Many of the farmers are already financially stressed due to six years of below breakeven potato prices, the loss of sugar beets as a cash crop, and the low prices received for grains and other rotational crops. All lenders must evaluate each borrowers financial situation to determine if continued financing is possible or what alternative plans and servicing actions are available to provide financing on a responsible and sound basis with reasonable levels of risk.

Farm Credit System Associations such as ours have a Congressional mandate to provide financing on a sound basis through times of financial stress when many other lenders are no longer willing or able to take the risk associated with "riding out the storm". I am sure that all agricultural lenders from this area are working to prevent a "worst case" scenario in which borrowers are unable to make loan payments because they had little or no farm income as a result of conditions beyond their control -- whether natural or manmade.

One of the tools to help avoid this worst case scenario is the loan guarantee program provided by the Farm Service Agency (FSA). Our Associations have had a long and beneficial relationship with FSA spanning the last thirteen years. We currently have 60 loans for \$5.7 million outstanding guaranteed by FSA. The FSA loan guarantee program provides the credit enhancements necessary to allow lenders to provide continued financing or restructuring opportunities for farmers experiencing financial stress. The guarantee program has been available to lenders for twenty years, providing a tremendous service to farmers and ranchers across

the nation.

We understand, however, that FSA may condition loan guarantees for restructured loans based on the Tulelake and Klamath Basin farmers receiving full water allocations for 2002. Never before have the loan guarantees provided by FSA been conditioned in this manner. We have no information that tells us our farmers will be unable to obtain water for the 2002 crop year. We have to assume that we will get average rainfall and that water will be available for farming operations next year. FSA's own regulations tell the agency to assume "normal" conditions when analyzing a loan. The agency cannot assume a drought, and so it should not assume that the federal government will again withhold water from these farmers.

FSA guarantees are critical to helping Tulelake and Klamath farm families and their communities survive. We hope that Congress will encourage all government agencies to cooperate in an effort to bring about the needed loan restructures that can prevent widespread economic disaster. Lenders and farmers alike need this guarantee program now to ensure that they have every chance to develop plans for dealing with this tragic situation over which they have had little to say.

If lenders are forced to discontinue financing and initiate foreclosure proceedings, not only will farm families lose their homes and livelihoods, but land values will plummet, farm machinery and equipment values will be reduced to 25 cents on the dollar, and area businesses will be ruined. The government can help lenders stay with our customers by providing certainty to these farm families soon. Today, we do not know if the federal government will provide direct assistance. We do not know if FSA will provide loan guarantees. We need full cooperation and coordination from all government agencies. Without these, lenders likely will be unable to resume lending even though water may eventually be restored. In the worst case scenario where water from the Bureau is not forthcoming in 2002, and land owners are faced with selling property, there will be no interested investors to purchase the land, purchase the businesses, or purchase the farm and ranch assets that will be left behind.

Without the certainty of a return of economic stability to the area, how can any plans be formulated by outside parties to limit the destruction? Moreover, those farmers who may have avoided much of the financial distress in their operations to this point, may be left without lenders, only to suffer the longer term consequences of financial ruin because of a "Chernobyl effect" that precludes any interest in the area from outside businesses.

Farmers who borrow money today may find that they have no borrowing capacity tomorrow. It's that simple. This is not sensationalism, but rather a very realistic view of what can and will happen if lenders are forced to leave the community.

Therefore, I am asking that this committee, all congressional representatives, and all federal agencies ensure that existing programs be available as part of many, many tools that can be used to avoid disaster and restore long-term economic viability and stability to this vitally important agricultural community.

Having reviewed the causes and implications of the current water crisis, and what I believe can be done to repair the situation, I'd like to express an opinion on what we can do to prevent this problem from occurring in the future. In the short-term, we urge the federal government, in conjunction with local representatives of the agricultural and rural business communities, to provide temporary economic assistance to maintain the economic value and asset base of the community. This will promote harmony and sustain the sense of well-being to the Tulelake and Klamath communities.

We also urge Congress to establish policies for these types of unanticipated emergency situations in the long-term. Changes to the Endangered Species Act, for example, to avoid the disastrous impact and economic loss where conflicts of a monumental size and nature such as this has occurred are in order. Compensation for farmers and local businesses for losses sustained as a consequence of no water resulting from the Endangered Species Act which the courts have ruled "trump" all other laws and regulations in conflict with the Act itself, warrant full consideration. Finally, all federal agencies should be directed to cooperate in an effort to minimize economic and emotional damage to the community, while maintaining viability, not only in economic terms, but in terms of the human spirit.

Thank you for allowing me to testify today.

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